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EDITORIAL

IN the section devoted to British and World Trade and Production, in the present number of the Quarterly, Colin Clark has shown an important change in the distribution of workers. While the output of mining and manufacturing is now up to the 1928 level, it is being produced by 450,000 fewer workers. The number employed in the distributive and allied trades, however, has increased by 500,000 since 1928. This change is permanent, and of the utmost importance to the Labour Movement. These workers are largely unorganised, politically and industrially. Many belong to that section of the 'white collared' class whose real interest lies with the Labour Party, but who like to consider themselves as part of the middle classes. Yet they have little in common with the professional classes, and have nothing to gain from the Conservative Party. Thus, outside all parties, they afford an excellent field for Fascist propaganda. The German shop assistant and clerical classes were among the early supporters of the Nazi party. The Labour Party needs to broaden its propaganda to appeal to these elements of the population. The crude 'class war' bombast sometimes heard on Labour platforms definitely repels this important and growing section of the workers. The advantages in the way of greater security and a higher standard of life which will come to them under a socialist regime need to be emphasised. Industrial organisation is also essential. The present unions which cover the

clerical and distributive workers must be greatly expanded. For these workers will only be convinced that their interest lies with organised labour and the Socialist Party when they have come into the ranks of a trade union to a far greater extent than at present.

* * *

Many countries are now finding that tariffs and quotas are not sufficient protection to ensure the home market to home products. Recourse is therefore being made to other protective devices, including complete prohibition, particularly in the case of agricultural products. Finland, for example, has recently prohibited the importation of margarine. In conjunction with this increase in the use of complete prohibitions and in the height of tariffs it is interesting to note Colin Clark's figures concerning world food prices. If a return was made to the tariff levels of 1927-29 the world could have food at the American gold index number of 36.9, yet Great Britain pays 44.4, Germany 56.6 for 'kolonialwaren' and 68.5 for farm produce, and France 70.1. This sacrifice for the privilege of eating home (or empire) grown food is an example of the extent to which economic nationalism will go. The strangling effects of such a policy on international trade are obvious, and the benefits to any country doubtful. France pays the highest price for its food, and has felt the benefits of the general economic recovery less than any other country.

DIARY

PRINCIPAL EVENTS

March 1934—May 1934

- March 1 *Manchukuo*—Enthronement.
Spain—Cabinet resigns.
- 2 *Germany and Denmark*—Trade agreement signed.
- 3 *Spain*—Lerroux returns with Cabinet concessions to the Right.
- 7 *Germany and Poland*—Trade agreement signed.
Spain—State of alarm declared, Building Trade and Printers strike.
Cuba—Constitutional guarantees suspended because of strikes.
- 8 *Great Britain*—L.C.C. election: Labour 69, Municipal Reform 55.
- 11 *Switzerland*—Rejection by referendum of bill for protection of State.
- 13 Anglo-French trade talks begin.
Estonia—State of alarm declared as a result of Fascist activities.
- 14 *Great Britain-Japan*—Trade talks break down.
- 16 *Spain*—Printers strike ended.
- 17 Danubian agreement signed between Italy, Austria, and Hungary.
- 18 Disarmament—German reply to French memorandum of February 14 published.
- 19 *Spain*—Building strike ended as result of Government pressure on
- 21 *Brazil*—Bill for restriction of Japanese immigration.
- 23 Anglo-French Trade talks suspended.
Disarmament—French reply to British memorandum of January 24.
- 24 *Germany*—Restriction on imports of raw materials and semi-manufactured goods.
- 25 *Italy*—Election for Chamber of Deputies.
- 29 Disarmament—British note asking for details of guarantees desired by France.
- April 1 *Germany*—Papal letter to Catholic youth encouraging them in resistance to Nazism.
- 4 *France*—Budget decrees signed by President.
U.S.A.—Bill passed to prohibit dealings in securities of countries in default to U.S.A.
- 6 Disarmament—French reply to British note received.
- 8 *Spain*—State of alarm suspended.
- 9 *Hungary*—Recognition of Russia.
- 10 Disarmament—Bureau meets.
- 14 *Italy*—Budget: 20.6% cut in civil servant's pay and reductions in rents and price of foodstuffs.
- 15 *France*—Decrees issued embodying cuts in pensions.
- 16 *Poland*—Formation of National Radical Party, a Fascist Party.
- 17 Grand Chaco war resumed.
- 18 Disarmament—French note to Britain that Conference must resume at point where it left off.
Japan—Manifesto that responsibility of maintaining peace in the Orient rests with Japan, and that generally the "open door" of China is now shut.
- 20 *Germany*—Formation of new Aviation Administration under Gen. Goring.
Spain—Amnesty bill passed by Cortes.
- 22 *Poland*—Visit of M. Barthou.
Great Britain—Visit of Signor Suvich.
- 23 German-Finnish trade treaty approved.
- 25 *Spain*—Cabinet resigns. State of alarm declared.
- 26 *Czechoslovakia*—Visit of M. Barthou.
- 27 War Debts—British Government informs Germany that it would take a grave view of any proposal to apply a transfer moratorium to Young and Dawes Loan.
Spain—Don Ricardo Samper forms a Cabinet.
- 30 *Austria*—Parliament meets for last time and approves Corporative Constitution and new Enabling Act.
Japan—Sir John Simon in House says that Japan will admit "Open Door" in China, and adheres to the Nine Power Treaty.
- May 1 *Poland*—Import of British coal prohibited.
- 2 *Arabia*—War between Wahabis and Yemenis.
- 4 *Germany*—New restrictions on import of raw materials.
- 5 Polish-Russian non-aggression pact extended to 1945.
- 7 *Great Britain*—Quotas against Japanese imports into Crown Colonies announced.
Yugoslavia—Foreign Minister visits Bulgaria.
- 9 *Ireland*—Budget introduced. 6d. off the income tax.
- 10 Australian mission to Japan.
- 11 *France*—Radical Congress opens.
- 12 War Debts—U.S.A. will accept token payments, but countries paying tokens will be considered in default.
- 13 French-Brazilian trade treaty signed.
- 14 Commercial agreement signed between Italy, Austria, and Hungary.
- 15 *Latvia*—State of emergency declared. Socialist leaders arrested.
- 17 *Latvia*—National Government formed under M. Ullmanis, leader of Latvian Farmers' Party.
- 19 *Bulgaria*—Coup d'état by Zveno Club.
League—asks for embargo on arms exported to Gran Chaco.
- 22 *Salvador*—Recognizes Manchukuo.
- 24 *United States*—Strike riots in Toledo.
League—Letician agreement signed between Peru and Colombo.
France—Socialist Congress opens.
- 28 Disarmament—Meeting of the General Commission of the Conference.
- 29 *U.S.A.*—Cuba treaty signed giving Cuba full sovereign rights.
Disarmament—Russian and American statement.
- 30 Disarmament—French and English statement.

BRITISH & WORLD TRADE & PRODUCTION

Table 1 General Index Numbers of Industrial Production

	Average 1927-29	FIRST QUARTER OF YEAR			
		1931	1932	1933	1934
Britain ...	100	87.4	88.6	86.6	100.4
U.S.A. ...	100	76.3	62.3	56.2	72.7
Germany ...	100	69.8	61.7	63.8	81.0
France ...	100	105.8	80.6	81.9	84.4
Japan ...	100	—	99.7	119.5	127.6
Russia ...	100	—	199.0	209.0	—
Sweden ...	100	99.2	91.3	86.0	101.9

Table 2 Textile Productions

	100	72.6	91.1	87.6	96.3 (4th Qtr.)
Britain ...	100	72.6	91.1	87.6	96.3
U.S.A. ...	100	82.5	76.7	73.4	81.1
Germany ...	100	80.0	82.4	82.8	100.7
France ...	100	88.5	57.1	75.0	79.9
Japan (cotton) ...	100	92.0	107.2	114.1	126.1

Table 3 Engineering Activity

	100	85.9	81.6	77.8	84.9
Britain (based on employment) ...	100	85.9	81.6	77.8	84.9
U.S.A. ...	100	76.3	17.2	7.1	19.6
Germany ...	100	63.8	39.5	35.8	49.0
France ...	100	105.8	76.6	73.8	74.2

Table 4 Building

	100	95.0	85.7	113.8	137.1
Britain (value of plans passed) ...	100	95.0	85.7	113.8	137.1
U.S.A. (contracts awarded) ...	100	59.5	22.0	14.4	35.7
Germany (delivery of building materials) ...	100	54.0	34.3	43.2	64.5

Table 5 Retail Sales (values—Base 1929)

	100	95.3	91.9	87.1	91.0
Britain (Dept. Stores, Chain and Co-ops.) ...	100	95.3	91.9	87.1	91.0
U.S.A. (e pt. Stores, Chain, Mail Order) ...	100	87.9	75.3	62.5	73.2
Germany ...	100	88.2	76.3	65.2	6.77

Table 6 Foreign Trade—Retained Imports (Base 1928-29)

	273	—	177	147	169
Britain (£ m.) ...	273	—	177	147	169
„ (Gold \$ m.) ...	1333	—	622	500	523
U.S.A. do. ...	1052	—	395	269	248
Germany do. ...	817	—	295	256	272
France do. ...	547	—	289	306	261
Japan do. ...	249	—	136	111	90
World do. ...	8067	—	3436	2998	2888

Table 7 Foreign Trade—Exports (Base 1928-29)

	182	—	92	90	95
Britain (£ m.) ...	182	—	92	90	95
„ (Gold \$ m.) ...	883	—	324	305	293
U.S.A. do. ...	1273	—	450	324	315
Germany do. ...	754	—	373	283	258
France do. ...	500	—	208	179	107
Japan do. ...	233	—	82	76	84
World do. ...	7383	—	3026	2762	2700

The refreshing rain of economic recovery continues to fall on the just and unjust alike; on Communist Russia, on Socialist Sweden, on Liberal America, on Conservative Britain, on militaristic Japan, and on Fascist Germany. In France, the figures show that the recovery has been somewhat later than in the rest of the world, as was the slump before it. But on the whole one can say that there is no considerable industrial country in the world which has not enjoyed a considerable degree of recovery for nearly two years.

The latest figures for Russia are not available, but it appears that industrial production in that country

has shown a moderate increase during the last year, although the expansion now is at nothing like the rate of the period of the Five Year Plan (1928-32).

Japan continues to make rapid progress. But the ordinary Englishman is entirely mistaken in his impression that this is due to a carving away of British export markets. Measured in terms of gold values, Japan's share of the world export market, though rising, has not yet recovered to the level of 1927-29. This is largely due to the tremendous depreciation of the yen, which now stands at 68% below its gold parity. Japanese industrialists have not raised their yen prices to any marked degree, with the result that Japanese exports are almost given away in gold or even in sterling countries. Japan, however, finds her imports dear under this regime of depreciation, and has been faced by an adverse balance of trade and the necessity for borrowing.

The quantity of Japanese exports (measured in goods and not in money) is now some 20% above the level of the years 1927-29 (as against a drop of 83% in British exports and nearly 50% in German during the same period). But this rise in exports is not nearly sufficient to account for the rise in total industrial production in Japan over this period, and there has been a big increase in production for the internal market in Japan and a rise in standards of life in that country.

Of the other industrial countries, Britain and Sweden were least affected by the slump, and in these countries the quantity of industrial production is now back at the 1928 level. In Britain the numbers in employment are now some 50,000 above the 1928 level. The output of industry (manufacture and mining), which is now the same in quantity as it was in 1928, is however being produced by 450,000 fewer workers. Employment in the distributive and allied trades has gone up by half a million, thus slightly more than counterbalancing the loss of employment due to mechanisation in the manufacturing industries. The reason why unemployment is now so much higher than it was in 1928, in spite of the fact that more people are now in work, is that the adult population has increased by over a million since that date.

Recovery in industrial activity has been as rapid in Germany as in America. These are the two countries where production had slumped worst. In both these countries recovery, though originating from natural causes, has been considerably assisted by expenditure on public works and (in Germany) state assistance for private capital works. But the essential difference between Germany and America, which is shown in the figures of retail sales and elsewhere, is that these programmes stand, in Germany on the basis of a declining, in America on the basis of a slightly rising, standard of life.

Among the lesser industrial countries, rapid recovery has been shown in recent months by Canada and Poland. In Belgium and Czechoslovakia conditions still remain stagnant.

In all countries textile production shows a considerable increase. In Britain this largely represents the activity of the wool industry, which is now at a very high level. On the other hand, world recovery in the capital producing industries—building and engineering—has been patchy. The most striking

features of these tables are on the one hand the activity of building in Britain and on the other the continued low level of the constructional industries in the U.S.A. It almost seems as if the great constructional boom in the U.S.A. in 1928 exhausted the constructional possibilities for many years into the future.

The brightest spot in American industry is automobile manufacture, which has increased threefold during the last two years, and in April approached the figure of 100,000 cars per week. This, however, is still some way below the peak figure of 1929 (approximately 150,000 cars per week at one period).

The figures of the value of retail sales are very interesting when read in conjunction with the cost of living index numbers. The British figures of sales, including department stores, chain stores of all kinds, and co-operative societies, are properly representative. The American figures appear also to be representative. The German figures, though not covering so large a proportion of shops, give results which are in accordance with other available information concerning consumption.

The British figures indicate that the actual quantity of consumption was gradually increasing even in the period 1929-32, and is now increasing fairly rapidly. The remarkable cheapness of imported food is largely responsible for this. In U.S.A. the quantity of consumption appears to have fallen some 13% between 1929 and 1932, and to have recovered now within 6% of the 1929 level.

In Germany, on the other hand, the quantity of consumption has not risen appreciably during last year in spite of the increase of employment. This must indicate an actual decline in the average standard of living of those in work.

The currencies of a large part of the world continue to depreciate in terms of gold, and thus the gold value of world trade continues to decline. Measured in terms of goods, however, world trade has shown quite an appreciable recovery, in the last quarter of 1933, to 77% of the 1929 level.

It is interesting to notice in the export table that each one of the five principal industrial countries, including Japan, shows a declining share of the world's export trade. These five leading countries now only have 41% of the world's export trade, as against 49% in 1928-29. This is a striking sign of the rate of industrialisation of the smaller countries.

On the import side we see that in 1928-29 Britain represented the market for 16.5% of the world's exports, America for 18%, Germany for 10.1%, and France for 6.8%. In 1934 Britain's share had risen to 18.1% and France's to 9.0%, while America's had fallen to 8.6% and Germany's to 9.4%.

There is no up-to-date information about agricultural output in recent periods to be added to the figures given in the last issue of this Journal. It appears, however, that the agricultural producers of the world have at last succeeded in reducing agricultural production to the level of consumption, judging by the fact that the world's stocks of the principal agricultural products are now beginning to fall.

This, together with the rise in industrial output all over the world, is being accompanied by a rise in the *relative* level of the prices of agricultural and primary produce, as compared with the prices of manufactured

goods. This improvement in the "terms of trade" in favour of the primary producer has always in the past been the normal feature of the earlier stages of trade recovery, just as the opposite movement, which of recent years has amounted to an exploitation of the primary producer by the industrial countries, is a normal feature, in its less exaggerated form, of trade depression.

Thus the American farmer in 1932 got 85% less manufactured goods in exchange for each unit of farm products sold than he did in 1927-29, and by the beginning of 1933 he was getting 41% less. The "degree of exploitation" has now been reduced to 27%.

In Britain the price of manufactures has continued to fall slowly, while there has been some rise in the price of primary products. But, so far as the "terms of trade" for this country are concerned, the effects have been marked by increasing tariffs. Often under tariffs "the foreigner pays the duty"; that is to say he lowers his price by the amount of the duty or part of it. Even so, the terms of trade have moved some 4% against this country during the past year. This, however, still leaves the balance immensely in favour of Britain as compared with 1929.

In France and Germany it is only the home agricultural producer who is getting the benefit of this alteration in the terms of trade. In Germany a 12% rise in the price of farm products has been engineered during the past year. The range of gold food prices throughout the world makes an interesting study. The American gold index number of 36.9 represents the price at which the world could have food if it wanted it, and was prepared to go back to the tariff levels of 1927-29. But in order that we may consume a larger proportion of home (or empire) produced food, we pay in Britain 44.4; in Germany they pay 56.6 for "kolonialwaren" and 68.5 for farm produce; and in France 70.1. Under these circumstances it is difficult to foresee much recovery in international trade.

C. G. CLARK

WHOLESALE PRICES AND COST OF LIVING

Table 8 Food

	Average 1927-29	FIRST QUARTER OF YEAR			
		1931	1932	1933	1934
Britain	100	74.7	76.8	69.6	68.8
do. (Gold)	—	—	55.4	48.7	44.4
U.S.A. (Farm Products) ...	100	69.0	49.5	40.7	58.8
U.S.A. (Gold) ...	—	—	—	—	36.9
Germany (Farm Products) ...	100	79.4	70.4	61.1	68.5
Germany (Imported) ...	100	77.5	69.7	61.8	56.6
France	100	91.1	82.9	72.9	70.1

Table 9 Raw Materials and Semi-Manufactured Goods

Britain	100	77.6	74.8	71.6	78.6
do. (Gold)	—	—	54.0	50.1	50.7
U.S.A.	100	75.0	62.0	55.1	72.4
do. (Gold)	—	—	—	—	44.2
Germany	100	80.5	68.8	65.7	68.2
France	100	68.6	54.7	53.1	54.1

Table 10 Finished Manufactures

	Average 1927-29	FIRST QUARTER OF YEAR			
		1931	1932	1933	1934
Britain ...	100	77.1	79.5	77.3	77.0
do. (Gold)	—	—	57.3	54.1	49.6
U.S.A. ...	100	84.6	75.4	69.4	80.7
do. (Gold)	—	—	—	—	49.2
Germany (pro- ducers goods)	100	98.3	89.4	84.7	84.0
Germany (con- sumers goods)	100	86.0	73.4	65.4	68.0
Germany (total)	100	90.6	79.4	72.8	74.1

Table 11 Cost of Living

Britain ...	100	91.6	88.5	84.9	85.2
U.S.A. ...	100	89.3	79.8	72.0	77.6
Germany ...	100	91.8	81.4	77.4	79.7
France ..	100	111.2	100.8	98.6	99.3

The upward movement of wholesale prices in the United Kingdom, which began about a year ago, received a slight check during the first quarter of 1934 which was partly, but probably not entirely, of a normal seasonal nature. The Board of Trade index number for February was 68.4% of the 1924 level, the highest figure since exactly two years before; but it declined to 61.9% by April, the latest month for which figures are available at the time of writing. This decline was general for most kinds of commodities, the exceptions being the "Iron and Steel" group, where the slow but steady upward price trend, which began about two years ago, continued; and in the group "Other Metals and Minerals," where the price level hardly changed in the first quarter of the year. The fall has been heaviest in the "Food" group, but here a decline of a purely seasonal nature was to be expected. There are indications that, *apart from seasonal fluctuations*, the prices of cereals and of "Other Food" are still declining, while those of meat and fish are continuing the recovery which began about eighteen months ago. Coal prices declined by no more than the usual seasonal amount, and this is also true of cotton prices. A seasonal fall in the price of wool followed a very sharp rise from 41% of the 1924 level in January, 1933, to 60% in January, 1934; even in April, after the seasonal fall, the index for wool was higher than in any month from June, 1930, to December, 1933.

The Ministry of Labour's index number of the cost of maintaining unchanged a pre-war working-class standard of living fell from 81.8% of the 1924 level in December to 78.4% in April, but this movement appears to have been merely seasonal in character.

A recession in wholesale prices (measured in terms of national currencies), mainly of a seasonal nature, was experienced by a number of other European countries during the first quarter of 1934, but there have been upward movements in Austria, Hungary and Czechoslovakia, as well as in the United States of America, Canada and Japan. In terms of gold, however, the downward movement has been more general, Austria being the only notable exception, while in the majority of those countries in which prices in terms of the national currency declined, the fall in gold prices was greater still. This is due, of course, to a decline in the value of the internal currencies concerned in terms of gold.

F. BROWN

MONEY AND DEBTS

Table 12 Bank Rate (%)

	Average 1927-29	FIRST QUARTER OF YEAR			
		1931	1932	1933	1934
Britain ...	4.89	3.0	4.8	2.0	2.0
U.S.A. ...	4.48	2.0	3.2	2.8	1.7
Germany ...	6.64	5.0	6.7	4.0	4.0
France ...	4.09	2.0	2.5	2.5	2.8

Table 13 Exchange Depreciation (%)

Britain ...	—	—	27.9	30.0	35.5
U.S.A. ...	—	—	—	—	39.0
Japan ...	—	—	31.5	58.0	63.3

Table 14 Bank Deposits—Current

Britain (£ mil.)...	989.0	923.0	808.0	906.0	939.0
U.S.A. (\$ md.)...	19.72	18.46	14.93	14.88	15.18
Germany (Rm. md.)	4.40	4.54	3.78	3.43	3.38
France (Fr. md.)	31.71	35.53	36.20	34.64	30.95

Table 15 Bank Deposits—Time

Britain (£ mil.)...	786.0	823.0	823.0	945.0	885.0
U.S.A. (\$ md.)...	13.10	13.56	10.98	10.32	9.27
Germany (Rm. md.)	7.27	6.54	4.08	4.11	3.89
France (Fr. md.)	0.83	1.60	1.20	1.13	0.85

Table 16 Value of Stock Exchange Securities

Britain ...	100	70.4	61.5	69.8	87.9
U.S.A. ...	100	70.5	34.9	28.2	55.7
Germany ...	100	54.8	32.1	44.7	50.9
France ...	100	90.1	67.4	56.1	50.6
Japan (Jan. 1930 equals 100)	100	74.4	97.6	156.5	222.3

Table 17 Interest Rate on Government Bonds (%)

Britain (Consols)	4.54	4.42	4.41	3.42	3.24
U.S.A. (Treasury Bonds)	3.52	3.37	4.10	3.48	3.55
Germany (Reichs- bank Index)	7.84	7.95	9.43	7.19	6.50
France (Renties)	4.59	3.43	3.83	4.06	3.91

From the currency point of view interest has been mainly concentrated since the beginning of the year on the position and prospects of the gold countries. Since President Roosevelt's stabilisation of the dollar on January 31st, France especially has been passing through a period of great economic difficulty, of which the political disturbances are but an eloquent symptom. The rise in the dollar price of gold was of the order of 67%. Since America left the gold standard in April, 1933, wholesale prices have on balance remained almost unchanged in France, and have only risen by some 23% in America. It is obvious therefore that on any free trade basis the dollar is still grossly undervalued in terms of the franc, and that France is only enabled to maintain the old parity with the help of the most rigid import restrictions, a higher level of interest rates than rules elsewhere, and the expectation that prices will rise in America. If higher prices in America do not in the end materialise, the amount of deflation necessary in France will be more serious than anything yet attempted there, and might well be sufficient to wreck the democratic regime. It is to be hoped that in that case she would leave the gold standard. The recent reduction of the French bank rate from 8 to 2½% (May 31) fails to confirm the determination to deflate.

In America most series are at present moving with great irregularity, and the upward movement which started last October seems to have spent itself.

Psychology has probably a good deal to do with the check to recovery, as also the continued stifling of the capital market. Our own slow but steady revival continues unabated, stimulated by a further fall in the long term rate of interest. The decline in Deposit Accounts is probably due to the greater opportunities for investment: the fall in Current Accounts is more mysterious. Bank Advances are also slightly down on a year ago, the figures for the four First Quarters, 1931 to 1934, being £918; £889; £758; and £781 million. A given physical volume of trade of course needs less money to finance it if the price level has fallen: though now it has begun once again to show a rising tendency, an at least equivalent rise in Advances must be expected. Bank Clearings continued to show improvement, the Provincial figures being (for the last four First Quarters): £319; £318; £318; and £346 million. Most of the improvement so far has of course taken place in production for the home market: there must be obvious limits to possible recovery without some improvement in World trade.

Events in Germany are very confused. Largely (it would seem) to frighten foreign creditors, the Reichsbank has allowed its note cover to fall to 8.7% (May 30); and the Government has so tightened up import restrictions that there is talk in the press of resort to such war-time horrors as paper clothing and synthetic rubber. But the deterioration in the German foreign trade position has been exaggerated. For the first quarter of the present year German exports amounted to 1094 million marks, and her imports to 1148 million. The comparable figures for the first quarter of 1933 are respectively 1189 and 1077 million marks. While, therefore, in the earlier period Germany had an export surplus of 112 million marks, this has now become an unfavourable balance of 54 million marks. The total visible export surplus for last year was 667 million; but recently the position has evidently been getting worse. The Germans are probably right in maintaining that there is at present little or nothing for debt payments, but a serious shortage of essential raw materials is obviously a long way off. The proper remedy is of course to devalue the mark.

Elsewhere in Europe the debt position is mostly unchanged: negotiations are at present in progress with Greece and Rumania. Among the South American countries, according to the recent Report of the Corporation of Foreign Bondholders, Honduras alone maintains debt payments in full. Mexico, Ecuador and Paraguay are in total default: Chile, Peru, Colombia and many other states in partial default. Funding plans have been carried out in the Argentine, Brazil and Costa Rica. The U.S. Supreme Court has refused Monaco permission to sue the State of Mississippi. At the time of writing our own American Debt policy has not been announced, but there seems no insuperable difficulty in paying. The annual payment is less than 10% of our exports, and an even smaller fraction of our imports. It would seem that a very moderate depreciation of sterling should suffice to provide the dollars which are necessary, while if the American Exchange Fund intervened, transfer difficulties would disappear altogether.

H. BARGER

EMPLOYMENT AND WAGES

Table 18 Unemployment

	NOS. OF REGISTERED UNEMPLOYED (1000)			PERCENTAGE UNEMPLOYED		
	Average 1929	Average for 1st Quarter		Average 1929	Average for 1st Quarter	
		1933	1934		1933	1934
Great Britain ...	1,262	2,897	2,325	10.4	22.6	18.1
Germany ...	1,915	5,871	3,315	18.7	32.3	17.9
France (partial) ...	10	358	377	—	—	—
U.S.A. (estd.)	3,000*	13,000*	10,000*	8.3†	26.2†	21.7†

* Rough Estimate

† Trade Union Weighted Percentage

Table 19 Employment Indices

	YEARLY AVERAGES (1929=100)			
	1932		1933	
			(1st qtr.)	(1st qtr.)
Great Britain ...	91.7	94.8	91.0	97.5
Germany ...	70.0	73.0	66.0	76.0 (Jan)
France (1930=100)	80.7	79.1	78.2	73.3
U.S.A. ...	61.7	65.5	57.9	74.0

Table 20 Money Wages (Revised Table)

	YEARLY AVERAGES (1929=100)		
	1932		1934
			(last available date)
Great Britain (all trades, weekly rates)	96.5	95.0	95.0 (Mar)
Germany (all trades, hourly rates)	82.0	80.0	80.0 (Jan)
France (men only, daily rates)	103.0	101.5	101.5 (Jan)
U.S.A. (industries, hourly earnings)	84.5	82.5	96.0 (Mar)
U.S.A. (industries, weekly earnings)	60.0	62.0	72.0 (Mar)

As compared with a year ago, unemployment has decreased very greatly in Germany, considerably in the United States, and substantially in Great Britain, but has increased in France, probably to a greater extent than the figures, which are very incomplete, reveal. As compared with the last quarter of 1929, the fall in unemployment has been large in Germany, but small in the United States, and gradual but significant in Great Britain. In France there has been a very sharp rise. The statistics of employment confirm these movements.

In Great Britain, the improvement is due entirely to conditions in the home market, as the export trades in general have remained seriously depressed. There has been a marked fall in unemployment in coal mining, and the improvement in the building industry has been maintained, apart from a seasonal fall in unemployment in March. The cotton trades continue depressed, though there has been a small improvement of late; wool and worsted, which have been much busier, have not quite maintained their position since March. Engineering and iron and steel both show a very marked advance on a year ago. The main question is how far the advance in the volume of employment can be carried without the aid of an improvement in the exporting industries.

In France, the export trades are feeling very seriously indeed the effects of the maintenance of the gold standard, and the deflationary policy now being pursued is bound to cause further unemployment; for even if the proposed schemes of public works are finally launched, they cannot begin to exert their influence for some time. The Government has promised measures to reduce the cost of living in order to offset the reductions in wages and salaries; but the high protective policy followed in the interests of French

agriculture and in order to redress the balance of trade keeps up internal prices despite the gold standard.

The German figures continue to show a sharp fall in the numbers unemployed; but it is difficult to say how far this is the result of a real increase in industrial activity, or of a deliberate sharing out of the available work among a larger number of employees. It is certain that this policy has been followed to a large extent, with adverse effects upon the working-class standard of living. In face of the depression in Germany's export trade, the increase in employment, as far as it is real, is due entirely to the home market, including Government activity in public works. It should be observed that workers in Labour Camps are no longer recorded as unemployed. The employers' returns for February, 1934, still show the actual volume of employment as only 54 per cent. of the possible volume of full employment as regards number of workers, and 46.5 per cent. as regards hours worked: so that German unemployment is still undoubtedly very severe.

In the United States, employment up to March, 1934, showed an improving tendency, but there has since been a serious setback. The latest estimates of the American Federation of Labour put the numbers wholly out of work in April at about 10,000,000, not including workers in Federal Labour Camps, but including those in receipt of emergency local relief. Other estimates from Labour sources are considerably higher. There are many complaints that the schemes under the N.R.A. for spreading the available work over more workers by reducing hours, subject to a guaranteed wage, are not working in practice, owing to the number of exceptions allowed and the frequent breaches of the codes and regulations. Beyond doubt, the N.R.A. is at present facing a serious crisis, especially as the shutting down of the Civil Works Administration, which was providing emergency employment for over 4,000,000 workers, has coincided with an industrial setback. The number employed on Public Works, as distinct from Civil Works, has increased, but is only a fraction of the 4,000,000 recently displaced.

The figures of wages show practically no change, except in the United States. For a note on the comparability of the figures given see the previous issue of this Journal. Caution should be used in quoting the figures without reference to this note. The table given in the present issue has been revised in the light of later estimates.

It should be noted that the wage figures for Germany have remained unchanged since the beginning of 1933, each quarterly return merely repeating the same figures. In view of information from other sources that there have been considerable reductions in wages, the official figures are open to a good deal of suspicion. Earnings, as distinct from wage-rates, have undoubtedly fallen very sharply.

The American wage figures show an improvement from the last quarter of 1933 to the first quarter of 1934 in respect both of hourly and of weekly earnings; but it is doubtful if this trend has continued since March.

In France wages and salaries of public servants have been reduced; but it is still too soon to measure the

effects of the current deflationary policy on ordinary wage-rates.

For Great Britain the average level remains unchanged from the previous quarter.

In view of current events, we give this quarter certain general particulars of wage-movements in two other countries—Italy and Japan. In Italy, hourly earnings have fallen from an index of 102 in 1929 (1928 = 100) to 85 at the end of 1933. This compares with a fall in the cost of living from 92 to 75 for the same dates (1927 = 100). In Japan, daily wage-rates have fallen from 100 in 1927 to 84 at the end of 1933, despite the severe depreciation of the yen. Daily earnings show a smaller fall, from 102 in 1927 to 92 at the end of 1933, owing to more regular working hours. The cost of living in Tokio has fallen from 188 in 1927 to 149 at the end of 1933 (1914 = 100), but is now higher than in 1931 or 1932, for which years it averaged 136 and 137.

The following warning is repeated from the last issue. The statistics in this section illustrate trends, and should not be used to compare absolute amounts of rise and fall.

G. D. H. COLE

TARIFFS AND TRADE RELATIONS

The adoption of a general tariff by Great Britain was followed by the conclusion of a number of bi-lateral treaties with many of the countries whose best customer we were. As shown in the last number, Runciman's desire to extend these treaties soon received a pronounced check. The first difficulty was created by the existence of the Most Favoured Nation clause in practically all British commercial treaties. The introduction of quotas, however, enabled this difficulty to be in part surmounted. More serious obstacles were the Ottawa agreements and the demand of the British farmer for an enlarged share of the home market. Despite the fact that the interests of the British and Dominions farmers were seriously opposed to one another it was possible for certain sections of the Conservative press to ignore these differences and to rally a considerable part of the party against any further trade agreements which allowed foreign countries to maintain or increase the volume of their agricultural exports to this country. The strength of this opposition now appears to be declining. It has been responsible, however, for much of the slow progress made in the negotiations for further bi-lateral treaties in the last few months. The initialling of an Anglo-Latvian agreement and the conclusion of a *modus vivendi* with France are the only recent achievements Runciman has to his credit.

The existing Runciman trade agreements, although they did not work very smoothly in their early days, have led to a considerable expansion of British exports to most of the countries concerned. This has been largest in the case of Denmark. The share of the United Kingdom in Danish imports rose from 15% in 1931 to 28% in 1933. This rise, which has continued during the present year, was accompanied by a growth in the value of Danish imports as a whole. The chief exception to this general expansion has been the British coal trade with Germany, which after a steady rise in the early months of the Anglo-German agree-

ment has fallen considerably below the 216,000 tons reached last February.

British exporting interests, realising the unlikelihood of obtaining further concessions from the Dominions, despite the New Zealand 'offer', and seeing the steady expansion of their trade in the markets opened by the Runciman agreements, are beginning to press for further trade treaties. The report of the committee set up by the Manchester Chamber of Commerce to consider the working of the Most Favoured Nation Clause fully illustrates this attitude. The City, finding that interest cannot be paid on investments in the Argentine and elsewhere if imports from these countries are unduly restricted, is giving support to the same policy. Runciman seems likely therefore in the immediate future to have not only strong backing for further bi-lateral agreements, but pressure exerted upon him to conclude such treaties. In view of the somewhat limited extent of the market for agricultural products in this country it is probable that future trade treaties will deal more extensively with industrial imports than the earlier agreements.

The last quarter has seen the breakdown of the negotiations between the Lancashire and Japanese cotton interests which had continued from September to March for a division of markets. The Japanese industrialists maintained that the discussion should be limited to Great Britain and the Crown Colonies; the British insisted on discussing world markets. The Japanese objected that the making of trade agreements concerning markets in other countries would be interfering with their sovereignty and would hinder the progress of trade negotiations already opened between the Japanese and other governments. The British industrialists replied that the agreement they sought was one between industrialists and not governments. There could not therefore be any interference with the sovereign rights of the countries in which markets were to be divided. The breakdown of these negotiations, however, saw the matter taken up by the respective governments. When they also had failed to reach agreement the British government imposed quotas limiting all imports of cotton and rayon goods into the crown colonies from foreign countries to the average for the years 1927-31. The Anglo-Japanese commercial treaty was thus got round without being denounced. There were a number of important exceptions to the quota policy. East Africa, which has taken a quarter of the Japanese exports to British colonies in recent years, was excluded as being governed by the Congo Basin and mandatory treaties. So were the other British mandates until Japan's resignation from the League of Nations should take effect. Hongkong was also omitted in case its *entrepot* trade should be damaged. West Africa was temporarily left out until the denunciation of the clause of the treaty affecting it became operative when tariffs were imposed on Japanese goods. It is difficult as yet to see what the effect will be of this trade war. Japan's desire for direct retaliation has been held in check as the value of her exports to Great Britain has exceeded that of British exports to Japan in recent years, but increased competition is likely to be felt by the Lancashire cotton trade in South America and other markets in the near future.

The revision of duties by the British Tariff Commission has continued on the whole to be in an upward direction; the stabilisation of the iron and steel duties on a permanent basis has been the most outstanding of these recent alterations. Further rises in tariffs and increased quota regulations have been common to many countries. They have been very extensive in those still remaining on the gold standard such as France, Italy and Holland. The most pronounced feature of recent months, however, has been the growing lack of faith in tariffs, and even quotas, as effective obstacles to imports and their growing replacement or reinforcement by state import monopolies, licenses, prohibitions and other forms of government control. Governments have been given extraordinarily wide powers to deal with imports. In Germany, Spain and Ireland the Cabinets have obtained general powers to regulate all imports in whatever way they think best; France and the United States have given their executives the power to remove import restrictions in return for concessions elsewhere.

State import monopolies have been organised in Germany for hides and skins and for most oils and fats. Italy has created one for all quinine products, whilst Ecuador has set up a state petrol monopoly. Sweden has decided to extend the life of her sugar import monopoly which was due to terminate. The rapid growth in the use of licences and prohibitions has chiefly affected the import of agricultural products and other raw materials (or their substitutes) which can be produced in the country making the regulations. France has raised the dues necessary to obtain a licence, while Spain has compelled all importers to register and obtain licences. Ingenious governments have made many other attempts to discourage imports. Germany has introduced a slaughter tax to be levied on all live animals imported for food. Rumania has imposed luxury and turnover taxes on cotton yarns; Uruguay and Sweden have raised some of their customs surtaxes. Spain has limited the use of the word *mantequilla* to butter made only from the milk of cows. The United States, Norway, Spain, China and Sweden have all compelled certain imports to be marked with the country of origin. Anti-dumping duties have been imposed by South Africa on Danish condensed milk and by Canada on New Zealand butter. Australia has decided to impose special duties on goods from all countries with depreciated currencies; Spain has placed anti-dumping duties on all bounty exports.

A number of fresh export restrictions have been created. Switzerland has prohibited the export of watch parts, whilst India has limited the amount of tea sent out of the country. Kenya has put a levy on the export of sisal fibre. The Irish Free State, sorely injured by the duties imposed on Irish goods following their refusal to pay the Land Annuities to the British government, has been forced to give high bounties on both agricultural and industrial products. Italy, which decided to give a bounty on thrown silk, was the only other country to make fresh experiments of this kind.

Reductions in duties were more extensive than in the previous quarter. Poland made a large number of further reductions, some of which were stated to be

only temporary in character. Like those made by South Africa they largely affected goods used by agriculturists or raw materials and semi-manufactured goods required by the staple industries. Holland also removed the turnover tax from certain goods used by agriculturists. Denmark reduced the duties on wheat and wheaten flour, commodities which were not extensively grown at home. The Bounty Dumping Duty imposed by South Africa on Polish clothing has been withdrawn, while Madagascar has abolished the Exchange Compensation Tax it had placed on British goods. To help crush the bootlegger the American government has withdrawn all limitations on the import of alcoholic beverages.

The German government has concluded a number of trade agreements in an attempt to check the disastrous decline of her foreign trade. That with Finland has ended a trade war which has given a large part of the former German markets in that country to Great Britain. Finland has agreed to reduce duties on clothing, clocks and lamps, etc. from Germany in return for reductions on Finnish timber, paper and other wood products. Denmark has given advantages to certain German industrial products in exchange for a reduced duty on Danish cattle and fish. Germany has also concluded a treaty with Estonia. The termination of the trade quarrel with Poland is the most important success obtained by Germany. Both countries have agreed to remove their super-tariffs and import prohibitions from one another's goods. Poland has also made new trade agreements with Czechoslovakia and Switzerland.

Agreements for a reduction of tariffs between Italy, Austria and Hungary and the provision of special facilities for the inland states at the Italian Adriatic ports formed part of a recent pact negotiated by Mussolini. Many of the details of these proposals have yet to be worked out. This attempt to consolidate Mussolini's position in Central Europe represents one of the most important successes of Italian diplomacy in recent years. Should it prove enduring Austria and Hungary will be bound to Italy by strong economic as well as political ties. Italy has also made commercial agreements with Rumania and Costa Rica.

An agreement has been completed between France and Italy for the purpose of re-establishing the trade balance between the two countries. This was secured by a mutual enlargement of quotas. Continuing its game of commercial chess with many opponents simultaneously, the French government has also reached agreement with Spain, Holland, Portugal, Greece, Brazil, Switzerland and Turkey. Most of these treaties contained provisions for the regulation

of trade at an agreed increased volume by means of quotas. In the treaties with Spain and Switzerland mutual arrangements were made to prohibit 'the improper use of geographical names of origin' for grape products and certain other goods. Turkey has also successfully carried through a bi-lateral trade treaty with Switzerland, has added additional clauses to her recent agreement with Greece and reached a *modus vivendi* with Czechoslovakia. Other trade agreements which have been made or have come into force in the last quarter are those between the Argentine and Holland, the Argentine and Belgium, Yugoslavia and Albania, Holland and Yemen, Ireland and Egypt, and Denmark and Bolivia. A treaty between Canada and New Zealand has been extended, and those between Poland and Spain and Estonia and Spain have been denounced.

The large increase in the number of these bilateral treaties is very significant. It suggests that governments are increasingly regarding them as the most favourable avenue of escape from the economic isolation produced by a too rigid adherence to the doctrines of economic nationalism. It is noticeable that the countries concluding these treaties fall into the same three groups observed in the last quarter, namely the close neighbours (*e.g.*, Germany-Poland, Yugoslavia-Albania), the countries at some distance from one another whose products differ considerably (*e.g.*, Argentine-Holland, France-Brazil) and the politically sympathetic (*e.g.*, Italy-Austria-Hungary).

The attitude adopted by the negotiators in many of these treaties towards the Most Favoured Nation Clause should not escape notice. It has rarely been dispensed with altogether, but a number of limitations have been placed upon its application. One of the most sweeping of these was the freedom France retained in her treaty with Spain to create special tariff regimes as a result of *ententes économiques*. Spain on the other hand merely reserved the right to offer special terms to Portugal and her own colonies. In many other treaties such as those between Argentine and Holland, Argentine and Belgium, Denmark and Bolivia, France and Switzerland, Italy and Rumania, and Italy and Costa Rica, the negotiating powers reserved the right to offer special commercial privileges to their neighbours. The majority of these states also claimed the right to enter a customs union at any time, should they wish. Governments have thus striven to obtain new benefits from bilateral treaties whilst preserving the advantages of the M.F.N. Clause. To the onlooker it appears rather a pathetic attempt to have their cake and eat it.

JOHN PARKER

THE INTERNATIONAL POLITICAL SCENE: A GENERAL SURVEY

DISARMAMENT AND DIPLOMACY

At the Disarmament Conference the new pattern in European diplomacy has been disclosed. America may be counted out. Mr Norman Davis said that while she is prepared to co-operate in disarmament, the United States will take no part in European political negotiations. Great Britain is pursuing its do-nothing policy. Sir John Simon and Mr Anthony

Eden are charming to everyone and will live up to Locarno, but will give no one real guarantees of security.

Germany wants a limitation of arms at the present level with equality for herself, and if a Convention is signed, she now adds, will return to the League. France has always asked for security before disarmament. Russia believes in complete disarmament, but since recent political events make that

impossible, suggests that the Conference should increase the measure of security for countries "cherishing no aggressive designs."

Little actually happened at the Conference for many months before the "crisis" in early June. The representatives of U.S.A., Great Britain, Russia and France had delivered their speeches setting forth their points of view, already made known by the negotiations which were pursued all winter. Last April, Sweden, Norway, Denmark, Holland, Switzerland, and Spain put forward a fresh plan for a Convention, which would include a substantial measure of disarmament, a realisation of equality of rights, and a reinforcement of security. Now the danger of breakdown has been avoided for a time there is a possibility that this plan may be used as a basis for a new Convention, provided Great Britain will accept the necessary measures of security.

In the meantime each country has passed large appropriations for arms, in order to get in on the start of the new arms race. One of the causes of the World War was the division of Europe into armed camps. Europe is now rapidly heading for the same position. France under M. Doumergue and M. Barthou, both well-known enemies of Geneva, is making a spectacular return to a pre-war system of alliances. M. Barthou has patched up the Polish Alliance, which was badly shaken by the German-Polish treaty, by recognising Poland's position as a great Power, and has re-affirmed French friendship with Czechoslovakia and the little Entente. The French position in the Balkans has been strengthened by the new friendship between Bulgaria and Yugoslavia which may mean a reorientation of Bulgarian sympathies from Italy to France. Russia was the chief French ally before the war. In 1932 M. Herriot signed a non-aggression pact with Russia, and there is now the possibility that it will be strengthened by an alliance for mutual assistance. France and the Little Entente have been manoeuvring for the entry of Russia into the League with a permanent seat on the Council, a step which is considered essential for such an alliance. Russia has extended her non-aggression pacts with the Baltic countries and with Poland till 1945, but she is haunted by the fear of a combined attack by Japan and Germany, two countries with much in common. Knowledge that in such a contingency Germany would be in turn attacked by France and perhaps by the Little Entente, would be reassuring to Russia, and might act as a deterrent to Germany.

In the meantime another system is being built up, for the Danubian pact between Austria, Hungary and Italy was signed in March. Although every effort was made in Rome to stress the economic character of the pact the first protocol lays down the principal that the countries shall agree among themselves on all problems which particularly interest them in order to pursue a common policy and to proceed to "common consultation" whenever any one of the three considers it advisable. So that between France and the Little Entente a Fascist block has been formed, under the hegemony of Italy.

While disarmament is discussed at Geneva the Gran Chaco War has emphasised the necessity of at least securing "the control of the manufacture of and traffic in arms." The League Commission has reported that

the continuance of the war has been only made possible by the exportation of arms to Bolivia and Paraguay by outside powers, including members of the League. At the suggestions of Mr Eden the Council sent telegrams to thirty-one countries asking whether they would agree to an embargo on the further export of arms to the two belligerent countries. Over a year ago the British and French governments submitted a memorandum to the League Council, suggesting that steps should be taken under terms of article 11 of the Covenant to recommend that Governments should impose such an embargo. This was accepted by all the members of the Council, but a number made their acceptance subject to the acceptance of the embargo by a specified number of other countries, including the United States, which replied that she was unable to impose an embargo until the necessary legislation had been passed by Congress, and no such legislation was passed. This time the necessary legislation has been passed by the United States, but still the Gran Chaco Commission has had to report that the legal and political reservations made by various governments concerning the proposed embargo were too great to enable the Commission to submit a definite proposal to the League Council. The League has therefore had to leave it to the countries concerned to apply the embargo as each sees fit.

JAPAN'S BOMBSHELL

On April 18, an unofficial definition of Japanese policy was given to the press. According to this new "hands off" China policy, Japan assumed exclusive responsibility for peace in Eastern Asia. If the activities in China, such as those being performed by the League of Nations, the American wheat and cotton loan and sale of aeroplanes, are continued and supported by force, then "Japan herself may be compelled to resort to force." The rest of the world awaited for some official communication regarding this new departure. On April 20 the Foreign Office issued a new statement which omitted any reference to force and declared that Japan still held to the open-door principle, but concluded: "The time has passed when other powers of the League of Nations can prosecute their policies for the exploitation of China."

Sir John Simon, always the friend of Japan, sent what he called in the House of Commons, a "friendly communication" to Tokyo. He reminded Japan that the principle of equal rights in China was guaranteed by the Nine-Power Treaty, and that, of course, the British government must continue to enjoy all the rights in China which were common to all the signatories. He added, at least in his explanation to the House, an acknowledgment that Japan has special rights in China "recognised by the other powers and not shared by them."

The United States has been particularly angered by this new Japanese outburst, because during the last thirteen months President Roosevelt has been pursuing an extremely pacific policy toward Japan. At that very moment the Pacific Fleet was on its way through the Panama Canal. Sir John Simon's reply and his cordial acceptance of the Japanese explanation seemed to the U.S.A. so inadequate that the government decided to publish, in substance at least, the official statement sent by the State Department to Tokyo.

"In the opinion of the American people and the American government, no nation can, without the assent of the other government concerned, rightfully endeavour to make conclusive its will in a situation where there are involved the rights, the obligations, and the legitimate interests of other sovereign states." No special treaties were named, but obviously besides the Nine Power Treaty, the numerous treaties with China which grant the United States certain rights were intended. After this protest, drawn up largely in terms of international law, and using many of the same paragraphs which Japan herself had stressed before the Lytton Commission, the U.S.A. has said no more. The sweet-tempered atmosphere that it had been building up in the east has been completely dissipated, and any possibility of American recognition of Manchukuo has been removed.

FRANCE

The Socialist and Communist parties are the only opposition on the Left to the National (Conservative) Government. The Radical Congress at Clermont on May 12, followed M. Herriot and gave its support to the National Government. M. Daladier is opposed to the National Government, but preserved a discreet silence, leaving all opposition to a badly led group of young radicals, who made a poor showing. The Socialist party, in its turn, held a Congress at Toulouse on May 24, and demanded a dissolution of Parliament, as the present government does not reflect the wish of the people in the last election. Their programme now includes: the socialisation of credit and insurance, State organisation of agricultural production, with co-operative distribution, socialisation of the railways, mines and electricity. Since these aims are far more advanced than those which the Radicals refused in 1932, future co-operation between the two Left parties seems unlikely. Already the Socialists are refusing in by-elections to support the Radical candidate on the second ballot, which has been the custom till recently, unless the Radical candidate declares his opposition to the Doumergue government.

After the adoption of the budget, as a whole, with no discussion of single items permitted, Parliament adjourned in the middle of March for a two months' holiday, leaving M. Doumergue to put the finances of the country straight by decrees. The decrees published at intervals have provided for economies, by reduction in number and salary of civil servants, reduction of pensions and reforms of unemployment relief, social services, and railways. Successive governments had fallen on the proposal to cut the salaries of civil servants, who are highly organised. Sporadic demonstrations took place and a General Strike was threatened, but in the end the decrees were accepted. The National Council of War Veterans, which is assuming a political character, while accepting most of the sacrifices demanded by the government, declared that unless profound economic and constitutional reforms were undertaken the veterans would impose their own programme. The government refused to accept these conditions, and it was reported that M. Doumergue had threatened, his great weapon, to resign if the decrees were not carried out as originally planned. The opposition gave in.

To justify these reductions the government has

announced that it will reduce the high cost of living. The success of this policy is doubtful, as the primary causes are the high value of the franc and extreme agricultural protection. To take the case of wheat, the French government has fixed the price of wheat at a rate of 129 francs a quintal, while the international market stands at 40. The Prefects of Departments are made responsible for bringing down retail prices by diminishing costs and improving distributions and by repressing abuses due to the intervention of middlemen. The campaign thus left to local authorities can have slight effect, unless the agitation of the consumer, which is recommended in the government circular, becomes political in character.

The policy of the government has just added two new planks, public works, on a plan advocated by M. Marquet, the neo-Socialist leader, and fiscal reform, including reduction of taxes. Since the meeting of Parliament the Socialists have accused the government of treating Parliament as "an assembly for silently registering legislation." There is some truth in this accusation, which assumes importance, when one remembers that M. Doumergue has formerly declared that "Constitutions were not fetishes."

SPAIN

At the beginning of March it was hoped that the workers' revolutionary movement would consolidate to form a united front against the Fascist elements in Spain. A definite alliance has not taken place. The Anarchists, Syndicalists and Socialists have conducted continuous strikes, riots, and demonstrations this spring, but there has been no real unanimity. The Syndicalists, for instance, accused the Socialists of cowardice and treachery in the conduct and defeat of the printers' strike. The Socialist leaders on their side have decided that the strike should be an industrial weapon, not political. Yet in April, when the League of Catholic Youth held their first annual rally in Madrid, the young Socialist League called a 24 hour strike, which spread rapidly and developed into a general attack on authority, which was only suppressed after considerable loss of life and the renewal of the "state of alarm." A general strike was proclaimed for May Day, and at Barcelona 150,000 Catalans staged a five hour street demonstration. Catalan secession was openly threatened if the Fascist reaction gained control in Madrid.

There have been two ministerial crises, on March 2 and April 25, with each time a Cabinet reshuffle, yet there has been no real change in the government, only slight re-groupings, designed to placate the right. As a result of disagreement over the amnesty bill, the entire Cabinet resigned, to reappear again, its complexion unchanged under Señor Samper, a personal friend of Señor Lerroux. The government is dependent on the support of the Acción Popular, and that support is a doubtful quantity. The Catholics, under Señor Gil Robles have plans to revive the Catholic syndical organisation to be used as a framework for a Catholic Corporative State on lines similar to Austria. In direct opposition to this movement ex-premier Azaña has united two parties of the Left, the Republican Action and the Radical Socialists, into the Republican Left, but only about a dozen Deputies of these parties are left in the Cortes.

FASCISM AND REACTION

Fascism has been disturbing the Baltic countries this spring. In Estonia during March martial law was declared, political meetings forbidden, and wide arrests made, chiefly among the leaders of the Liberators' League, a Fascist organisation. The government declared that the League was financed from abroad, and was using terroristic methods to win the presidential election. In Latvia a state of emergency has been declared, but this time the government in power has established a dictatorship on Fascist lines, directed against the Socialists. Parliament has been dissolved, while the Cabinet has been reorganised, not on party lines, but, it is claimed, each man has been chosen for his expertness in his department.

In Lithuania the Fascist problem is acute and dangerous to world peace. Germany protests that all measures taken by Lithuania to preserve order in the Memel territory are an infringement upon the autonomy of the territory and the rights of the Germans living there. In turn Lithuania declares that all Nazi activity is evidence of a plot against the integrity of the Lithuanian state. Many notes have been exchanged between the two countries, but no agreement has been reached. In February, Germany informed Lithuania that her actions were likely to have serious effects upon the future relations of the two countries. During March, there were numerous arrests of Nazi agitators in Lithuania and counter-moves by the Germans, but no change in the relations of the two countries has been reported.

Poland has seen the rise of a new anti-semitic party called the National Radicals. Their programme is similar to the German National Socialists. In their attacks on Jews they are being joined by local Nazis.

Bulgaria has also had a *coup d'état*. Such disturbances are characteristic of Balkan politics, so it is impossible to ascribe the new government definitely to Fascist origins. The new administration, composed of members of the Zveno group, economists and army officers, has dissolved Parliament and is governing by decree. Although it is against party politics, no action has been taken against any party. The chief reforms proposed by the Government deal with administrative changes which will tend to greater centralisation; communes for instance have been reduced to a third in number, and mayors will no longer be elected, but appointed by the Central Government. Certain articles, such as alcohol, will be turned into monopolies to provide revenue. The whole credit and banking system is to be reorganised and simplified.

In Germany the churches, both Protestant and Catholic, are proving the most steadfast opponents of

the Nazi regime. At Easter the Pope sent a encyclical message urging the Catholic youth to stand firm against the "new outlook on life which points away from Christ and back to paganism." In Austria on the contrary the church and state go hand in hand. The Roman Catholic Church has been made a privileged, established church and will no doubt feel that it has a special license to interfere in matters of state. There is to be no freedom; the press, theatre, cinema, and wireless are all under government control. Vienna is shorn of its powers, sixty-four persons, headed by three Roman Catholic priests, but including a Protestant and a Jew, will act as an advisory committee. Five Chambers have been created, four to advise, and one to register legislation laid before it, but all intended to hide the fact that Austria is now a dictatorship.

Italy has just elected what is known as the "suicide parliament," for it is expected to pass the necessary constitutional changes to turn Italy into a Corporate State. The Corporations Law has been passed, so their creation should shortly take place. Signor Mussolini informed the Senate that "the first step will be to constitute the Corporations, the second to observe and control the practical and effective functioning of these institutions, and only after this period of trial will the third step of constitutional reform be taken." On March 28 he announced a "Sixty-Year Plan" to carry Italy forward through the rest of the twentieth century. "Italy's future," he said, "lies in Africa and Asia; these are the logical geographical areas for her economic penetration, but even there it is economic, not territorial expansion that is desired." As this announcement was only six days after the signing of the Danubian treaty it should not be assumed that Italy has turned her back entirely on Europe. In the meantime to balance the budget, severe cuts, ranging from 20.6%, have been announced in the salaries of all Civil servants. To counteract these reductions rents are being reduced, the price of commodities in co-operative shops have been cut 10%, and a newspaper campaign is waging to bring private concerns into line.

In Switzerland has the only real step to the left been made. By a referendum, the Socialists and peasants defeated a bill for the protection of the State, a bill designed to avoid another Geneva riot, but so vaguely phrased that it could easily have become a measure for repression. If the peasants, generally found in the Radical party, continue their support of the Socialists, there should soon be a Socialist Federal government in Switzerland.

F. F. GRIGSON

THE NEW DEAL AND SOCIAL REFORM

E. A. RADICE

The author of this article was General Secretary of the N.F.R.B. for the first two years (1931-3) of its existence. He now holds a Commonwealth Fellowship in the U.S.A.

European Socialists whose stay in the United States has been a little longer than that of the average visitor-lecturer are apt to be rather bewildered at the ease with which New Deal propagandists have been able to win the approval of so many progressives, particularly in England. For while the supporters of

the National Government can give tolerant approval to those aspects of the recovery programme which are helping capitalist revival (knowing full well that their own more orthodox methods have been just as, if not more successful), our radicals are puzzled by the complacency of American business men in the face of

a policy which on paper at any rate is not so far different from their own schemes for reforming English capitalism.

It is often argued that, while having due regard to economic recovery, the main object of the New Deal is to establish a system of economic planning in the United States: a system of planning which will be democratic and American rather than Communist or Fascist, but which will nevertheless vitally change the productive, and above all the distributive machinery of the country. That no such idea was ever in the mind of the President must be obvious to any close observer of American politics. But even if some of his advisers had in the abstract worked out paper utopias, it is certain (*pace* Dr Wirt) that none of them ever seriously thought of the possibility of anything concrete emerging.

The reason is that to put through an economic plan it is necessary to have a coherent and well thought out political and social philosophy. To conceive of the Democratic Party—and it is still after all the party bosses who call the tune—as having a coherent philosophy when they have never got as far as having a consistent paper programme, is obviously absurd. As for the President himself, he is kept far too busy holding together his motley following and playing the day-to-day political game to have any real use for such things, however much he may pay lip service to them in his fireside broadcast talks.

But if economic planning was not part of the original programme, it was quite evident from the first that the administration was anxious to satisfy the country's demand for social reforms which had been steadily growing ever since the fading out of the dreams of the new era prosperity period. On the whole one may say that this demand was not for any specific measures of legislation such as old age pensions, unemployment insurance, etc. It was rather for a better distribution of wealth in general, which would enable every citizen to have a full share in the enormous potential productivity of the country. The disfavour into which Wall Street had fallen had at last made the average man realise that the financiers' gain was his loss, and the popular economics of the newspapers taught him that only by spreading purchasing power could potential consumer's demand be made actual.

The President was of course fully aware of this feeling, and consequently recovery through redistribution of income and increased consumers' buying became the keystone of his very complex and always empirical policy. What makes the policy hard to understand for Europeans is that in the past taxation has been the chief weapon which liberalistic governments have used to redistribute wealth. Roosevelt, on grounds of policy rejected this method. In fact, owing to the heavy taxes on agricultural products taken for processing, it is probable that even with the increase in income taxes, taxation has become more regressive, *i.e.*, is bearing more heavily on the lower income groups. This conclusion is reinforced if consideration is taken of the regressive nature of taxation *via* inflation, a very important factor during the past year, and therefore it became necessary to set up a complicated bureaucratic structure which attempts to

control incomes at their source instead of merely redistributing them after they have been earned.

It is of course too early to judge with any accuracy the actual results of the first year of the New Deal, but it will be useful to describe the position as it was a year ago, and to attempt some estimate of the probable effects of the present policy. The administration's problem has been two-fold, firstly to secure a more equitable balance between capital and labour, and secondly to enable agriculture to gain a larger share of the national income. To do this its chief organs are the National Recovery Administration and the Agricultural Adjustment Administration, which from the start have been directed with a view to redistributing income in these two fields rather than initiating a thorough-going system of economic planning.

During the war the relative standards of living of wage earners and farmers in the United States increased considerably. In the case of farmers the turn came with the depression of 1921, and in the case of wage earners with the upturn of 1923. Right through the "prosperity period" both wage earners and farmers failed to get their full share of increased income, so that even at the beginning of the depression a very considerable maladjustment was evident in both fields. The following figures illustrate this point:—

PERCENTAGES OF TOTAL INCOMES OF INDIVIDUALS*

			Received by wage earners		Received from Agriculture
1914	...	...	34.8	...	14.2
1920	...	...	39.9	...	14.9
1923	...	...	38.6	...	10.8
1928	...	...	36.0	...	9.3

* Calculated from the estimates of Mr W. I. King.

During the depression of 1929-32 this process was continued even more rapidly. Figures comparable with the foregoing are not available, but a study recently made by the U.S. Department of Commerce shows the general trend:—

PERCENTAGES OF TOTAL INCOMES OF INDIVIDUALS

			Received by wage earners*		Received from Agriculture
1929	...	...	21.2	...	7.8
1932	...	...	14.0	...	7.0

* In the following Industries, Mining, manufacturing, construction, rail and water transportation.

This distortion of the pre-existing income distribution, and not the debtor-creditor inequities resulting from the fall in prices was the real problem to be faced in 1933. The fact that in the agricultural field at any rate, the latter problem was considered to include all of the former, explains the eagerness with which the policy of price inflation was adopted. How far this over-simplification obscured the main issues will appear more clearly in what follows.

It must be remembered that the labour provisions of the codes do not lay down general wage scales. They concentrate firstly on the limitation of working hours, and secondly on establishing minimum wages higher than those of the lowest paid worker in the industry in question on July 16, 1933. The reduction of working hours in 1933 from an average of 41½ a week to 38½ a week in industries covered by the survey of the American Federation of Labour was to

a very large extent responsible for the decrease in unemployment in private industry during the year and for the increase in *total* wage payments. While it is impossible not to be sceptical at the claim that a reduction of the working week to 26½ hours would absorb all the unemployed into private industry, it is certain that with power production as at present organised in the United States a further reduction in hours will be required, even if production rises to the pre-slump level. Nevertheless a start has been made, and the recognition of the necessity for spreading leisure and for providing opportunities for a full use of that leisure is one of the brighter aspects of the new deal.

But while the unemployed and those workers who were worst paid have benefited considerably by the codes, the average employed worker undoubtedly suffered some reduction in his standard of living in 1933, which has only been offset in recent months. The fact that wage rates in the codes are so often hourly rates, and that hours of work per week have been reduced, has meant that far too many workers have sunk to the minimum scales as far as weekly earnings are concerned. It is true that most codes have clauses of "equitable adjustment," which are supposed to give more or less proportionate wage increases to those workers who in July, 1933, were earning more than the lowest wage in each industry, but at the moment there is little confidence in their efficacy. In the 300 codes that have been signed so far there are quite 30 different kinds of clauses of equitable adjustment, which vie with one another in evasion, vagueness, and failure to define what is meant by a wage rate. And government officials who are handling the labour end of the codes seem to be very doubtful as to whether this present unsatisfactory position can be remedied.

The NRA codes then have not been able to secure universal wage increases throughout industry, even if they have benefited the most exploited workers. Some measure of the general wage increase can be obtained from official figures. Thus in the fifteen major industrial groups reporting to the US Bureau of Labour Statistics weekly hours decreased during 1933 from 41.5 to 37.7, and average hourly wages increased from 45.8 to 51.2 cents. Average weekly earnings therefore increased from \$19 to \$19.30, or 1.6%. In the same period the cost of living index of the National Industrial Conference Board (an employers' organisation, whose index is thought to underestimate the real increase in working class living costs) rose 2.9%, and the US Bureau of Labour's index of retail food prices rose by 5%. This loss in real wages, however, may have been regained in the first four months of 1934. On the other hand if we take the total of factory pay-rolls and compare them with the retail price indices we find real gains, though half of the total increase in pay-rolls took place before the enactment of the recovery act.

		Payrolls	Retail Food	Cost of Living
1933	Mar	100	100	100
	June	125	107	101
	Sept	156	118	109
	Dec	144	114	108
1934	Feb	160	119	110

These figures conclusively support the suggestion that any gain made by labour has been almost entirely

due to the absorption of some of the depression in employment. In spite of all the efforts of the administration the codes have not accomplished any substantial increase in wages per head. Furthermore it is openly admitted in official circles that even the minimum conditions laid down in the codes are being impudently and flagrantly violated, and the administration is proving itself either incapable or unwilling to provide suitable machinery for their enforcement. Even the much vaunted abolition of child labour is restricted to those industries with codes (assuming that in this respect the codes are adhered to), and the opposition to the child labour amendment to the federal constitution, which is led by the President of Columbia University and the ex-President of Harvard University, is gathering strength daily.

Looking at the other side of the picture, we find much the same as we should have expected to find had there been no new deal. As we have seen, the object of the new deal was essentially to increase the purchasing power of the masses and to give special aid to the lower income groups. This would have necessitated an economic recovery without a corresponding inflation of profits. As Walter Lippman rightly remarked, "The whole NRA depends on the willingness and the ability of employers to increase their costs at the expense of profits and reserves rather than by raising prices. Because they are asked to do a thing contrary to the established habits of business conducted for profit, it is necessary to appeal to their patriotism, to their higher emotions, and also to their fear of a boycott and other forms of public pressure." So much for the intention: but what are the actual facts?

Moderate recovery has brought extra employment to labour; it has also brought a very considerable increase in profits to capital. While no figures are available for total industrial profits during the past year, the index of corporation profits compiled by the National City Bank of New York has shown a very marked rise, and was in the first quarter of 1934 at about the same level as in the first quarter of 1931. On the other hand the index of payrolls was in February, 1934, 20% lower than in February 1931. All along the line there is evidence that it is the middle and upper classes who have benefited most by the recovery of industry, whether in the form of resumed or increased dividend payments or in the restoration of salary cuts or in the resumption of profitable stock exchange operations.

This complete failure of the NRA to secure for labour a larger share of the product of industry comes as no surprise to anyone who is even only slightly familiar with the NRA codes. To describe in detail the opportunities for monopoly profit given in the 300 codes would require a very careful examination, not only of the codes themselves, but also of the trade practices of the industries concerned. Yet it would be quite accurate to say that the NRA has tried to set minima for both wages and prices, and has more or less allowed 'industry' (i.e., the employers) to settle how far the minima shall be exceeded. The results can easily be imagined. It is significant that a small tailor in New Jersey was sentenced by the courts for pressing a suit for 25 cents when the code had established 30 cents as a minimum, while big industrialists

evade with impunity the labour provisions every day. For many years American capital has been finding the anti-trust laws singularly inconvenient. Now at last the NRA has given its blessing to monopoly, not in the form of trusts, but through what will virtually mean a large measure of cartellization in American industry.

This emergence of monopoly with government approval and backing is undoubtedly the most important economic fact in the United States today. And it is this that makes the New Deal far more akin to Fascism than to the kind of economic order desired by most British Socialists. At the moment there are no signs that any federal control will be exercised over the numerous price fixing agreements that are being made, for the consumers' board is quite ineffective, and labour, in spite of the President's promises, is everywhere being deprived of its legal rights of collective bargaining. A large increase in trade union membership might conceivably be a counter-balance to this growth of the power of capital, but unfortunately company unions are growing even more rapidly than the unions affiliated to the AF of L. In spite of the progress of recovery and the undoubted general increase in the standard of living (due largely to federal doles), the long-run outlook for labour appears considerably less bright than it was nine months ago.

Our conclusion therefore must be that income redistribution by asking capitalists to give labour a larger share of the net product of industry has proved a very poor weapon as compared with taxation and social services, not merely because it is failing in its objective, but because it is strengthening the bargaining power of capital as compared with other economic interests. This does not mean that the NRA has accomplished nothing good, but rather that it has in the circumstances been powerless to control the forces that it has set in motion. This soon became evident, and the Government, in order to allay discontent, was virtually compelled to grant the unemployed subsidies in the form of Civil Works Administration (CWA) 'jobs' to tide over the period which would intervene before its lavish expenditures would prime the pump of private enterprise. These were, however, purely recovery measures, and as such irrelevant to the long run problem of the redistribution of wealth.

The efforts of the government to help agriculture have been directed in the main to the raising of prices. The Agricultural Adjustment Administration is among the most interesting and efficient of all the New Deal organs. At its head is a group of young radicals who can be relied upon to make the best of whatever policy the government cares to put through, and so far it is certainly agriculture that on the surface has benefited most in the past year. During 1933 the ratio of the prices received by farmers for commodities sold to the prices paid for commodities purchased (1909-14=100) rose from 50 to 59; but even this 18% rise leaves the 100 ratio, which is the ultimate goal a very long way off.

Here too we find price fixing the order of the day. The proceeds of taxes on consumption goods have been paid to farmers as bribes to curtail production, and so to "put a bottom" to commodity prices. This has naturally been of enormous assistance to many sections of the agricultural community. Gross farm

income is estimated to have risen from \$5148 millions in 1932 to \$6380 millions in 1933, but a very large part of this increase has gone into the pockets of the owners of the big cotton estates of the south. The 'middle' farmers of the corn and hog belt have had some benefit too, but there is evidence that the position of the poorest agriculturists has improved least of all. Travelling in Kentucky, Tennessee or northern Alabama one is told that there are counties in which 80% or 90% of the population, which consists almost entirely of small peasant farmers, is dependent on federal relief funds, and that further south and west in Mississippi and Arkansas much the same is true. It may be better elsewhere, but information of this kind is not obtainable from official statistics.

American agriculture is after all dependent on foreign markets, as Secretary Wallace clearly recognises. Their loss would necessitate the withdrawal from production of millions of acres of farm lands, a process of readjustment which could only be carried through with the help of huge federal doles. The reduction of tariff walls would of course be the natural way of swinging the balance away from industry and towards agriculture, and many supporters of the new deal imagined that this was what was meant by a readjustment of income distribution as between the two fields. Evidently industrial interests have proved too strong, and the policy of taxing the consumer to provide doles for a decaying agricultural industry was the only possible policy left. A redistribution of income in favour of agriculture then has only been possible through a series of subsidies. How long they will continue will depend to a large extent on political considerations. But their modification with conditions as they are would mean deepest poverty and degradation for the American countryside.

We can now give a brief summary of the main long run factors in the New Deal which are operating to cause a redistribution of wealth and economic power :

- (1) The way has been paved for extensive cartellization in industry.
- (2) The problem of technological unemployment is being partially met by a reduction in working hours.
- (3) Minimum wages and certain child labour provisions, together with rights of collective bargaining for labour, are established in some 300 codes, the enforcement of which, however, is certainly not 100% effective.
- (4) In agriculture a policy of crop restriction and subsidy has for a time raised the standards of certain rural workers, but has brought an element of instability into the whole system.

In these we have good as well as bad features. In spite of all that can be said against the New Deal it is certain that the mass of Americans are better off than they were a year ago. But that does not mean that the New Deal has done anything to reduce the vast inequalities of wealth and economic power that exist in America today in a more acute form than ever before. It has been the object of this article to show the hollowness of its pretensions in facing this fundamental problem of economic inequality, and to suggest that it offers Europe warnings of what to avoid rather than examples of how to act.

RESEARCH ARTICLES

The two following articles represent part of the work being done by the Bureau on the Socialisation of the financial system.

NATIONAL INVESTMENT BOARD

G. R. MITCHISON

The National Investment Board should serve as the means for directing the savings of the community to purposes of public importance, in accordance with the general economic plan of the Government. Those savings will consist partly of money in the hands of public authorities, including socialised industries, and partly of private capital. The ultimate object of the Board will be to deal with the public savings, which will become increasingly important as socialisation proceeds and with increased taxation. As regards private savings, their collection and use is so connected in practice with the Stock Exchange, that the Board must control and ultimately replace that body.

The present arrangements for long-term credit are unsatisfactory, even within the limits of the capitalist system. In the first place, there is excessive speculation, both in taking up new issues and in other Stock Exchange transactions. The effect is wasteful and contributes to the excessive profits of the financial houses concerned.

Moreover, the result is to aggravate the effects of booms and slumps. If control of investment is limited to new issues, speculation will be canalised into other Stock Exchange transactions: the latter must also be subject to control. The socialisation of Insurance Companies and Investment Trusts, both of which invest more money for the individual than he does for himself, would help the work of the National Investment Board and would speed up the transition from private to public investment. Secondly, stock-brokers and issuing houses at present make excessive profits. A socialist community should acquire the instruments of the financier, as it will acquire those of the industrialist. The Board should have powers of control over issues; but we cannot expect the existing machinery to work smoothly or efficiently for our purposes, while under control and in a period of transition to Socialism—and the Board will accordingly have to act as an issuing house, as least as regards issues made for public purposes. Thirdly, it is difficult at present to raise small sums of money; the costs of small public issues are prohibitive. The Board should issue its own stock and apply the proceeds to finance new discoveries, experimental undertakings and small concerns under public control.

The socialised banks, lending money for short terms, would exercise control over the borrowing, as banks now do. There is no similar control over long-term borrowing. It could and should be exercised by the Board in the case of private borrowing, as a step towards the socialisation of the business concerned.

There is not at present sufficient co-ordination between the borrowings of public authorities. Such co-ordination will become increasingly necessary as socialisation proceeds. The National Investment Board should advise the Government on this matter and act as their instrument for co-ordination and control. While working in close co-operation with the socialised banking system, the Board will be sub-

ordinate to the planning Department of the Government—or rather to the Cabinet or its Economic Committee, as advised by that department. The Board will be an advisory body on some financial aspect of the Government's plan and will be charged with executing that plan in certain of its financial aspects. The Board will have no power to impose or remit taxation.

With increased taxation the practice of taking land or securities in settlement of taxes will have to be extended. This applies particularly to Death Duties on the scale advocated by Dr Dalton. The Board should have power, at its option, to accept land or securities in such cases and to credit their value to the tax-collecting Department (at present, the Revenue).

The main resources of the Board, with which to supply long-term credit for public enterprise, will accordingly be:—

- (a) The invested funds of Government and local authorities, as already used in Sinking Fund purchases, etc
- (b) The invested funds of socialised banks, insurance companies and investment trusts
- (c) The profits of socialised industry
- (d) The proceeds of issues made by the Board and subscribed from the above sources and by private investors
- (e) The proceeds of land and securities held by the Board as national investments and obtained either by purchase out of the above resources or in consequence of loans made by the Board to private enterprise or in satisfaction of tax liabilities

We would suggest (f) that taxes on capital, such as Death Duties and any levy on capital increment which a Socialist Government might propose, should be applied to the purposes of the Board.

It is accordingly suggested that the Act constituting the Board should include the following provisions:—

- (1) The Minister in charge of Banking to be the Chairman of the Board, fully responsible for it and entitled, if the occasion arose, to exercise any of its powers or rights without the concurrence of its other members
- (2) Public issues and offers for sale to be prohibited, except when made by the Government or under licence of the Board. In order to prevent evasion, all loans of more than £10,000 would also require a licence, unless made by socialised banks. Licences could be given either for a proposed transaction or generally, on terms, to a financial house
- (3) The Board to have power to act as an issuing house and, for that purpose, to be furnished with working capital in the shape of a Capital Issue Fund. This would be working capital, not money to be lent
- (4) The Board also to be endowed with a National

Investment Fund, which it may augment by issuing stock, the capital and interest of which may be made payable out of the Fund or may be secured upon all or any of the national investments. The latter may be bought out of the Fund, acquired in satisfaction of taxes or other debts, or held by the Board on behalf of some other government Department or public authority. It is intended that the Board should

hold the assets of socialised industry as a trustee

- (5) The Board to have power to make a market in its own issues, by buying and selling them
- (6) The Board to have power to requisition securities, needed for the control of foreign exchange
- (7) The Board to have power to prohibit, or impose conditions on, dealings in any security on the Stock Exchange

THE DISCOUNT MARKET

"BANKSTER"

THE PRESENT FUNCTIONS OF THE DISCOUNT MARKET

The discount market consists of three public limited companies, five private limited companies, two unlimited companies, eleven firms and some half dozen running brokers. (Running brokers act only as intermediaries between buyers and sellers of bills.)

The total capital (including reserves) of the public companies is £7,000,000, of the private companies £2,810,000, and of the rest of the market approximately £3,000,000. With this capital, together with the deposits which they receive and the short-term loans made to them by the banks, the discount houses hold commercial bills, Treasury bills and government bonds. These will be discussed below. The proportion of their assets to their capital is about twenty to one.

Commercial Bills

Trade, especially international trade, is largely financed by bills of exchange, which are in this country usually accepted by specialised institutions known as accepting houses. A vendor of goods may draw a bill on the purchaser will thus receive, three months' date, and the purchaser at, say, three months' credit. But unless the purchaser who accepts the bill is well-known and financially strong, the bill will not be freely negotiable and the vendor will be out of his money until the acceptor provides funds to meet the bill. Hence there has grown the system of the London Money Market, by which an accepting house, for a commission varying in general from one to two per cent. per annum, lends its name to a trader by accepting bills on his behalf. The trader has to provide the accepting house with funds to meet the bills at their due date, but the accepting house undertakes in any case that the bill will be paid. The good name of the acceptor of a bill of this kind will enable the drawer (who is in this example the vendor of the goods) to sell the bill at a certain rate of discount to a discount broker. Thus the vendor receives his money at once; the purchaser secures credit for a certain time; the accepting house (which runs the risk of the vendor's insolvency) receives a commission; and the billbroker obtains a freely negotiable instrument.

Before he will discount a bill, therefore, a billbroker must have knowledge of the financial standing both of the acceptor and of the drawer or endorser for whom he is to discount the bill, and it is on this knowledge that depends the rate of discount at which he is willing to take the bill.

The discount houses are thus of great advantage to traders since, though rates vary with monetary conditions, there is almost always a competitive market for good bills and this would not be so if they could

be sold only to the banks, who are naturally not buyers at all times. The billbrokers hold the bills until maturity or until such times as they can sell them at mutually satisfactory rates to the banks; in the meantime they can pledge them as security for the short-term loans they receive from the banks.

Treasury Bills

Every Friday the banks and discount houses tender for the Treasury bills offered for sale to the money market, so that the Government is able to borrow in this way, whenever it wishes, at competitive rates. Here too, as with commercial bills, the market sells the bills to the banks or holds them until maturity, in the meantime pledging them, if required, as security.

The profits of billbroking are, of course, largely dependent on movements in money rates and on intelligent anticipation of them. For instance, a broker who expects a fall in the bank rate will buy all the bills he can in order to sell them at a profit when the rate has been lowered. At present, however, a long period of cheap money, combined with the minimum rate of one per cent. which the clearing banks are charging for short-term loans, has made billbroking for some time past less profitable than of old.

Government Bonds

When discount brokers are unable to make profits by running bills and at the same time are anxious not to lose the good-will of the clearing house banks by paying off their loans when money is already easy, they frequently reduce their holdings of bills and invest in government bonds. The degree to which they can do this is limited to some extent by the difficulty of placing bonds as security with the banks. Some banks will lend short money only against short-dated bonds; others will take bonds for only a small proportion of the total loan; others are willing to take a larger proportion of the total loan; others are willing to take a larger proportion of bonds, but insist on charging a higher rate than for loans against bills.

The holding of bonds by brokers is regarded with disfavour by the banks, since a sudden fall in the price may find the brokers unable to repay their loans at call. It is a common saying in the money market that no broker has ever failed on bills, whereas disproportionate investment in bonds has been known to lead to disaster. In the autumn of 1931, for instance, the fall in gilt-edged—the fall was of course accentuated by the market's attempt to realise its holdings—drove several firms for help to the Bank of England.

COMPARISON WITH FOREIGN SYSTEMS

It is in procedure in times of crisis that the differences between the London and the continental systems

are most marked. When a London bank wishes to increase its cash ratio, it simply calls in loans made to the discount market. It can eventually, if the necessity arises, rediscount bills at the Bank of England, but this is a comparatively costly method of 'making-up,' as the discount rate charged may be anything up to Bank Rate. On the Continent, on the other hand, the banks usually have to go for accommodation direct to the central bank. In Amsterdam, for example, the banks not only borrow frequently from the Netherlands Bank, but they re-discount their bills there and can even borrow against the promissory notes of their own debtors.

A similar difference between London and New York was explained in the evidence of Dr W. W. Stewart before the Macmillan Committee: "In New York surplus funds flow to the stockbroker, while in London they flow to the billbroker. In New York there is no discount market which can handle the volume of commercial and Treasury bills which your market handles. Bankers' bills in America are carried for the most part either with foreign money or by the Federal Reserve Bank. So that there is no active discount market of the kind you have in London. This results in an important difference in the way in which the bill market relates itself to the central bank. In contrast with London, the member banks borrow directly from the Federal Reserve Bank instead of calling money from the market and so forcing the market into the Bank."

From the point of view of the banks, then, the great virtue of the London Discount Market is that it acts as a buffer between them and the Bank of England and provides them with a second line of liquid assets upon which they may fall back while still remaining independent of the central bank. It has the further advantage of enabling the banks to employ their surplus funds with profit in spite of day-to-day fluctuations in their cash requirements. When one bank is short of money and calls loans from the market, the probability is that the money will be paid to other banks, and the market will be able to borrow it back again from them, whereas on the continental system the bank that is short will have to borrow from the central bank and the others will be left with surplus funds. If the money called from the market is being paid into the Bank of England, the market will probably have expected the movement and arranged its maturities in anticipation of it. For example, during the first three months of the year, large quantities of money are paid over every week by the banks as revenue; similarly, the banks usually like to increase their cash holdings at the end of the year to give an appearance of liquidity in their balance sheets. Such movements are expected by the market and preparations are made for them: if cash resources and maturing bills prove inadequate, the market is 'forced into the bank', that is to say, in order to pay off the loans which are called in by the banks, the discount houses have to borrow from the Bank of England.

These movements are normal and on such occasions the working of the London Money Market is undeniably smooth and efficient. It is more questionable whether the London system is the most suitable for emergencies. The Bank of England, it is true, will always come to the help of the discount or acceptance

houses as surely as any foreign central bank will help the bank in its own market, but at the same time there is no doubt that a crisis in London does put the greatest strain on the place least able to bear it.

THE DISCOUNT MARKET IN A SOCIALISED SYSTEM

It is assumed here that when a Socialist government comes into power it will socialise both the Bank of England and the joint stock banks. The questions now to be considered are the extent to which the services of the discount market will still be required and the type of institution by which they will be best performed.

It is presumably not intended for some time to merge the various banks into a single institution, nor will the Treasury and the banks be able at first to work together in such a way that there will be no need for assistance from the money market. At the same time, the whole system of the city will be radically changed under socialism, and it would therefore be a waste of time and energy to socialise those parts of it which may ultimately disappear and which can in the meantime be controlled through the socialised Bank of England. The Bank has complete control over the discount market, at any rate in a negative way, by its regulation of the extent of the help it will give in a time of crisis and of the security which it will accept from borrowers. The immediate policy of the Labour Party is therefore to socialise the banks, but only to control the discount market. But it is assuredly no part of socialist policy to preserve this essentially capitalist institution once a more unified financial system is evolved, and it is perhaps worth while considering a possible line of policy for the more distant future.

It has been seen that a billbroker renders services to the following people:

- (a) traders, by discounting commercial bills
- (b) the government, by taking Treasury bills on tender
- (c) the banks, by borrowing their short-term money and selling them bills when they require them
- (d) himself or his shareholders, by manipulating his assets in a profitable manner.

Of these services (a) will be the only one of importance under the new system, since (b), and (c) will become obsolete when the banks are socialised, and (d) will have no place in a socialist economy. As regards (a) it is impossible, without considering the whole question of import boards and kindred subjects, to decide the part to be played in the socialist system by the commercial bill. Even, however, if a more extensive use is made of the bill than at present, there appears to be no reason why the work both of acceptance and of discounting should not be performed by socialised organisations. Even now bills are accepted by the banks, and this line of business would doubtless be further developed, were it not for the specialised nature of the work and the extensive information and connections already possessed by the accepting houses. So also with the discount market. For, with unified ownership and control of the banking system, there will be no need for a body to act as a buffer between the system's component parts.

Although the banks and the rest of the City appear

to be indissolubly attached to the system which has grown up and to which they have been accustomed over a long period, it is possible that circumstances may force them in the near future to change their attitude. If the period of cheap money continues for some time to come (as seems probable) many of the smaller firms in the discount market are likely to be forced either to amalgamate with each other or to go out of existence. The Bank of England is understood to look with favour upon amalgamations which will lead to a market composed of fewer but larger units, but it is doubtful whether the joint stock banks would welcome a development which might concentrate the scattered forces of the market into a block solid enough successfully to oppose their wishes.

Again, the shortage of suitable security (evidenced by a shrinkage in the total of Treasury bills and short-term government securities from approximately £8,200 millions in 1922 to £1,600 millions in 1933) perhaps indicates that those billbrokers who are not driven out of existence will tend more and more to

invest their funds in long-dated government bonds.

The man who borrowed money from the banks at one per cent. in order to hold bonds yielding him, say, three per cent., would perform no economic service to the community and have no *raison d'être*. For, if the banks wished to invest in that type of security, they would do better to hold the bonds themselves than to lend at a lower rate to a smaller man whose capital could not stand the strain in a financial crisis.

These developments are purely conjectural, but, should they come about, the banks will be compelled either to find a new way of employing their short-term money (unless they are content to keep large Bank of England balances earning no interest) or else to sacrifice their independence of the Bank of England and to place themselves in a similar position to that occupied by most continental banks vis-a-vis their central bank. The difficulties presented by the socialisation of the discount market should thereby be appreciably lessened.

WORK OF THE NEW FABIAN RESEARCH BUREAU

RESEARCH WORK IN PROGRESS

Further assistance in research over a wide range of subjects will be very welcome. Anyone willing to offer such assistance is asked to communicate with the General Secretary, 17 John Street, London, W.C.1.

Work has been put in hand during the last three months on the following subjects:

I ECONOMIC SECTION

The Socialisation of the Chemical Industry.

II POLITICAL SECTION

A Study of the 'Corporate State'

III INTERNATIONAL SECTION

The Causes of the Failure of Social Democracy in Germany

IV LOCAL GOVERNMENT SECTION

(a) A Study of the working of Differential Rent Schemes now in operation in Leeds and elsewhere

(b) The Future of Adult Education

Arrangements have also been made for the creation of research groups to work on local problems in Sheffield and Leeds.

COMPLETED MEMORANDA

The following have been added to the list published in our first number of finished studies which are available for consultation in the office:

I ECONOMIC SECTION

(a) Marketing Boards and Imports Control.

(b) Cost Accounting and Price Fixing

(c) Land Nationalisation—Preliminary Inquiries
(i) Compulsory Acquisition of Land by Crown in Wartime

(ii) Powers as to Compulsory Acquisition of Land in relation to Roads, Electrical Supply, etc.

(iii) Financial Inquiries

(iv) Motives for Land Reform in Central and S.E. Europe

II POLITICAL SECTION

(a) Electoral Methods

(b) Sample Survey showing need for Redistribution of Parliamentary Seats

III INTERNATIONAL SECTION

(a) Should the Labour Party have a New Foreign Policy?

(b) Demands for Treaty Revision: The Polish Corridor (German and Polish cases)

IV LOCAL GOVERNMENT SECTION

(a) A Critical Analysis of the present Position of Municipal Finance

(b) A Labour Policy for Housing

CONFERENCES

A successful meeting was held in April to discuss the proposals put forward for the socialisation of the Electrical Supply Industry. A pamphlet will shortly be published on this subject.

Two Weekend Conferences are to be organised by the Bureau during the autumn, primarily for specialists on the subjects concerned.

October 20-21 Foreign Affairs

November 24-25 Transport

Details as to place and programme will be announced later. Two further conferences are planned for the spring on London Government and a political subject. In addition to these weekend conferences discussions will also be organised on the various socialisation studies as they are completed.

PUBLICATIONS

Short comments are invited upon Bureau publications. The following is a criticism which has been received on H. R. G. Greaves's "Prevention of War."

Mr Greaves sets out to show why the League of Nations as an instrument for the prevention of war has failed, and to suggest an alternative system. He first analyses the causes of war, which he finds to be (a) the existence of nationalist psychology, which can be controlled in its own interests by big business, and

(b) capitalist economic rivalry, which finds expression in the struggle for markets. The League has failed because it does not deal with either, and, being based on national sovereignty, cannot give security. He suggests that any international system to prevent war must, in the first place, guarantee security, and, in the second place, remove the economic causes of war. He proposes to deal with the first, which he considers the key to the whole problem, by the creation of an International Police Board on the lines of the Permanent Mandates Commission, which shall control an International Police Force and shall decide when and in what manner sanctions should be applied against an aggressor. The removal of the economic causes of war is to be brought about by the setting up of an effective and authoritative League Economic Body to organise international economic planning. He stresses that these two proposals are inseparable.

How far does this proposed international system solve those problems which have condemned the League to failure? In the first place, it must be pointed out that security is not the key to the problem—it is only a re-statement of the problem. Security can only be obtained by the removal of the causes of war, and it is this removal that constitutes the real task. If capitalist economic rivalry is the fundamental cause of war, it follows that war can only be finally prevented by the abolition of this rivalry; in other words, by the institution of international Socialism.

It is just at this point that Mr Greaves is somewhat obscure. It is not clear whether he realises that international economic planning can only be carried out by Socialist governments, or whether he thinks that his League Economic Body could function in the framework of a capitalist system. From his previous analysis, the former appears more likely to be his view; on the other hand, however, he seems to envisage the setting up of his proposed system on the initiative of a British Labour Government independently of whether other countries have remained capitalist. If they have, the Labour Government would have to persuade powerful capitalist governments, such as those of France and Italy, to become Socialist. Such a policy appears frankly utopian. If, however, these governments refused to be persuaded, what reason is there to suppose that they would give up their national economic interests and support the International Police Board any more loyally than they have supported the League of Nations? No! No amount of juggling with international machinery will enable us to escape from the necessity of instituting international Socialism as the only final way of preventing war.

Mr Greaves suggests the setting up of an International Police Force. It is well to point out the dangers inherent in any such force which is controlled by an international system of capitalist countries. Common action against Socialism is probably the only ground of agreement that such governments would find.

In conclusion, I would point out that the title of the pamphlet is to some extent misleading. It deals only with one method of preventing war. The other method, the organisation of mass resistance, which was

agreed to by the last Labour Party Conference, is not mentioned. From the point of view of the Labour Movement, as distinct from the next Labour Government, the organisation of such resistance would appear far more important than the somewhat unrealistic policy which Mr Greaves advocates.

F. W. BACON

RECOMMENDED BOOKS OF THE QUARTER

Cole, G. D. H. *STUDIES IN WORLD ECONOMICS* (Macmillan pp. 284 12s 6d)

Cole, G. D. H. *WHAT MARX REALLY MEANT* (Gollancz pp. 311 5s)

Dalton, H., and *UNBALANCED BUDGETS* (Routledge pp. 468 15s)
A collection of essays by different authors based on investigation into the recent financial history of various countries. That on Germany by Mr Brinley Thomas is much the best.

Isles, K. S. *WAGES POLICY AND PRICE LEVEL* (King pp. 256 9s)
A careful theoretical examination of the case for reducing wages during depressions. Mr Isles's book is closely reasoned and consequently difficult; but it is an important contribution to short-period economics. The main conclusion is that in a depression wages should be neither lowered nor raised.

Paish, F. W. *INSURANCE FUNDS AND THEIR INVESTMENTS* (King pp. 118 4s 6d)
An original and admirably clear exposition of a most important but very little understood subject.

Newman, A. M. *ECONOMIC ORGANIZATION OF THE BRITISH COAL INDUSTRY* (Routledge 15s)

An exhaustive survey of the post-war history of the British coal industry and an analysis of the causes which have hindered rationalisation. Mr Newman is opposed to Government intervention in the industry.

Thomas, Ivor *COAL IN THE NEW ERA* (Putnam pp. 250 5s)
Suggestions for the future use of coal and its by-products in addition to an able analysis of the industry's present position and a scheme for its socialisation.

Columbia University *ECONOMIC RECONSTRUCTION* (Oxford University Press 15s)

A very interesting and authentic intrigue of the New Deal by various distinguished economists, including Professors Wesley Mitchell, J. M. Clark, Schumpeter, J. W. Angell and Macleod. The authors in effect analyse the whole issue of planning and economic freedom.

Hubbard, Dr J. B. *THE BANKS, THE BUDGET AND BUSINESS* (Macmillan pp. 147 7s 6d)

A financial history of the depression in the United States. Dr Hubbard's account is interesting, but there are serious gaps in it.

Brailsford, H. N. *PROPERTY OR PEACE* (Gollancz pp. 314 5s)
The theme is that neither peace nor democracy is possible in the world without the attainment of Socialism and economic equality.

Braaytoy, B. *LABOUR AND WAR* (G. Allen & Unwin pp. 179 8s 6d)
An interesting contribution.

Macartney, E. A. *NATIONAL STATES AND NATIONAL MINORITIES* (Oxford University Press pp. 554 18s)

An exhaustive account of minority problems containing some valuable statistics.

Royal Institute of *THE SAAR PROBLEM* (Royal Institute of International Affairs International Affairs pp. 34 2s)

An excellent survey, giving all the necessary data and maintaining a rare impartiality. Perhaps a little optimistic.

Seton-Watson, R. W. *TREATY REVISION AND THE HUNGARIAN FRONTIERS* (Byre & Spottiswood pp. 76 1s 6d)

A critical study of Hungarian claims. Should be read in connection with recent propaganda from Budapest.